



## ANNUAL REVIEW 2018 AND OUTLOOK 2019



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### FOREWORD

The year 2018, in which ARDAL commemorated 15 years of its activity, was very successful from the ARDAL point of view and again remarkable in the area of debt management in Slovakia.

Despite a turbulent local political environment, ARDAL ensured smooth financing of government financial needs. The very good position of the Slovak Republic on the financial market was confirmed by the 50-year bond issuance - the longest maturity in history of the country. This transaction was successful thanks to consolidation efforts of the Government, good macroeconomic results of the country and transparent debt management.

The electronic trading platform for the secondary market of the Slovak Government Bonds - MTS Slovakia was also successfully launched in 2018. It aims to increase the liquidity and price transparency of the Slovak Government Bonds on the secondary market and to contribute to a more positive perception of the Slovak Republic by investors.

Following these remarkable results I would like to thank all business partners for their excellent cooperation and investors for their trust throughout the year 2018.

### KEY INFORMATION

- Original total needs decreased from EUR 4.5 billion to only EUR 3.9 billion.

- Breaking down this amount - EUR 1.5 billion was issued via bond syndication (dual tranche 10 year and 50 year bond), EUR 1.6 billion was issued via bond auctions and EUR 0.8 billion in the T-Bills.

- ARDAL held 10 Government Bond auctions, 3 T-Bill auctions and one dual tranche syndicate deal with total demand almost EUR 13 billion and average bid to cover ratio 3.3.

- Slovakia achieved the all-time lowest yield in T-Bill auctions at minus 0.35% p.a.

- First ever dual tranche of new EUR 1 billion 10-year benchmark issue and EUR 500 million 50-year issue (longest issuance in CEE region).

- Total debt to GDP for the first time since 2011 is expected to be below 49% of GDP at the end of 2018. The state budget cash deficit reached EUR 1.2 billion (budgeted EUR 2 billion).

- Slovakia extended its average maturity and duration to the OECD average levels reaching 8.8 years and 7.7 years respectively thanks to the very favorable situation in the bond market in recent years.

- ARDAL successfully implemented MTS Slovakia as an exclusive platform for Slovak Primary Dealers.

- The web page was improved by adding an analytical part, enabling automatized connection a real-time data warehouse.

Chart 1: Government Bond Auction Results by Bond Line in 2018

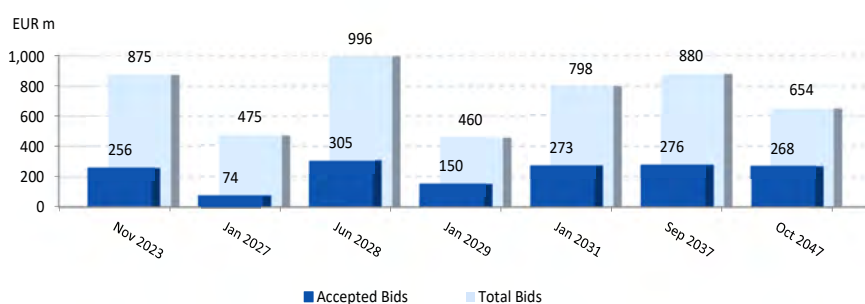
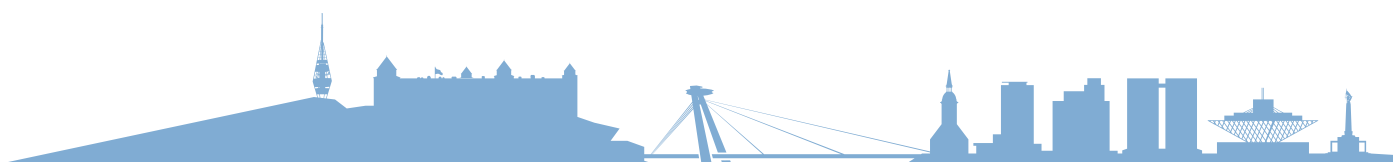
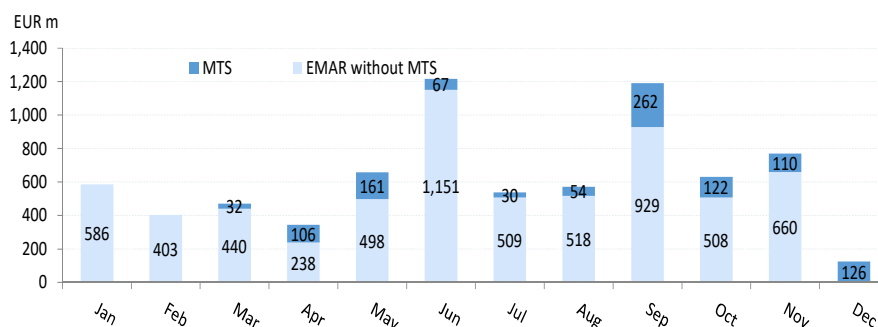


Chart 2: Slovak Primary Dealers Secondary Market (EMAR) in 2018



## CREDIT RATINGS

The Slovak Republic has a high rating for short and long term debt with a stable outlook from all major rating agencies. Slovakia's ratings reflect its strong macroeconomics performance and deep integration with major Eurozone economies. During recent years Slovakia has been among the top growth performers in the European Union.

Slovakia has had a rating at A level or better for the last 15 years. Slovakia is ranked 29th out of 65 countries worldwide in sustainable country rating. (Source: RobecoSAM, November 2018)

"The stable outlook reflects our view that Slovakia's economic growth prospects will be solid over the next two years despite its high reliance on auto exports. We project that the current rapid expansion in household credit growth will subside as macroprudential tightening takes effect this year." (Source: Standard&Poor's, July 2018)

Table 1: Credit Rating

| Current Ratings of the Slovak Republic |                 |                         |
|--|-----------------|-------------------------|
| Confirmation Date                      | Agency          | Grade                   |
| July 2018                              | Standard&Poor's | A+ stable outlook       |
| September 2018                         | Moody's         | A2 positive outlook     |
| July 2018                              | FITCH           | A+ stable outlook       |
| October 2018                           | DBRS            | A (high) stable outlook |

## GOVERNMENT DEBT SECURITIES ISSUES AND AUCTION CALENDAR FOR 2019

The gross funding needs (bond redemptions and deficit of state budget) will reach EUR 4.3 billion (Government Bonds, Treasury Bills and Government Loans) in 2019. This amount is based on the Act on the State Budget for 2019 and is in line with the Act on State Debt and Guarantees.

ARDAL intends to open 1 or 2 new lines of Government Bonds via syndicated sale or auction in 2019. The following lines will be opened depending on the market conditions and the investors' demand:

- new bond line with issue size of EUR 3 billion in second quarter 2019, with maturity according to market conditions (long 10-20 years);
- new bond line with issue size of EUR 1.5 - 3 billion in spring or autumn 2019, with maturity according to market conditions (short to middle tenor).

The total expected maximum amount to be sold via syndicated sales is EUR 2 billion, regardless of the number of transactions.

Other lines of bonds can be opened based on debt management requirements and investors' demand.

### Treasury Bills

In the view of the liquidity requirements and debt management, ARDAL is not planning to issue a new line of Treasury Bills in 2019.

### Government Bonds Auctions

The bond auctions will take place once per month – usually on the third Monday of a month. Based on liquidity requirements, debt management and demand of investors, more bonds can be auctioned in one auction day. Similarly to 2018, it is expected that auction of 1-3 bonds will take place on each auction day.

The non-competitive part of the auction will take place on the next day after the competitive part of the auction. Settlement of trades resulting from both auction parts, competitive and non-competitive, will be on the same day: the competitive part of the auction D+2 and the non-competitive part of the auction D+1.

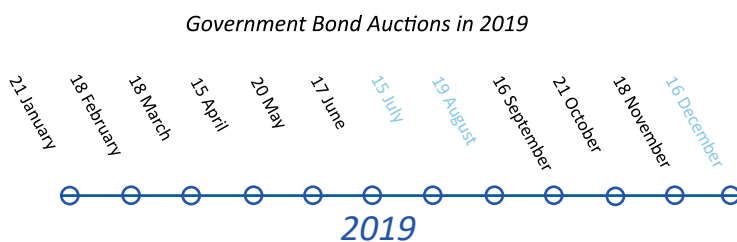


Table 2: Open Lines of Bonds  
(Available for Tapping) as of 31.12.2018

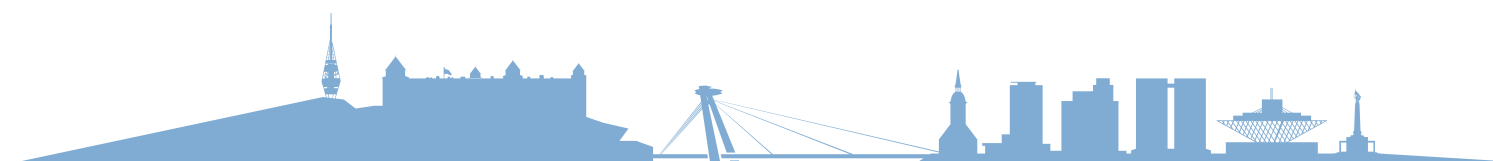
| ISIN                | Issue Date | Maturity   | Coupon (% p.a.) | Available (EUR million) |
|---------------------|------------|------------|-----------------|-------------------------|
| SK4120009762        | 16.1.2014  | 16.1.2029  | 3.625           | 205.4                   |
| SK4120011420        | 21.1.2016  | 21.1.2031  | 1.625           | 952.1                   |
| SK4120012691        | 9.3.2017   | 9.3.2037   | 1.875           | 193.2                   |
| SK4120013400        | 17.10.2017 | 17.10.2047 | 2.000           | 3,732.5                 |
| SK4120014150        | 12.6.2018  | 12.6.2028  | 1.000           | 1,695.5                 |
| SK4120014184        | 12.6.2018  | 12.6.2068  | 2.250           | 4,500.0                 |
| <b>Total Amount</b> |            |            |                 | <b>11,278.7</b>         |

Table 3: Principal Liabilities Structure as of 31.12.2018

| Liabilities    | EUR (million) | Average Costs     |
|----------------|---------------|-------------------|
| Issued Bonds   | 36,937        | 2.70% p.a.        |
| Issued T-Bills | 800           | -0.33% p.a.       |
| Loans          | 2,280         | 2.76% p.a.        |
| <b>Total</b>   | <b>40,017</b> | <b>2.64% p.a.</b> |

Total average liabilities costs together with the State Treasury funds are close to 2.25% p.a.

The amount of the liabilities is in nominal value. The value of the EUR equivalent of foreign currency bonds is calculated using the exchange rate of the FX hedge transaction or by using the ECB's exchange rate valid for reporting date.



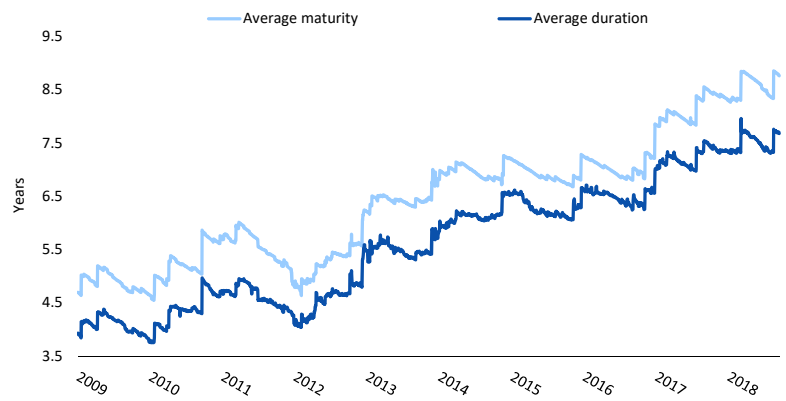
## RISK MANAGEMENT

ARDAL manages the debt portfolio risks in accordance with the approved Government Debt Management Strategy. This strategy continues in monitoring of refinancing and refixing risks.

As regards the refinancing risk, there is a strategic intent to maintain the value of the liabilities to be redeemed within one/five years close to 20/55 % of total liabilities.

As for the refixing risk, there is a goal to maintain the value of the liabilities to be refixed within one/five years close to 25/55 % of total liabilities.

Chart 3: Average Maturity and Duration of the Slovak Debt Portfolio



The weighted average maturity of the state debt portfolio reached the value 8.8 years and the duration was 7.7 years at the end of 2018. These values are similar to the debt portfolio characteristics of the Eurozone core countries.

Chart 4: Risk Indicators of the Slovak Debt Portfolio for the next year.

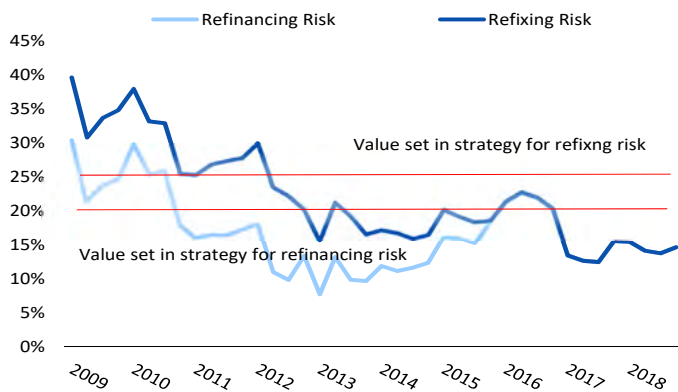
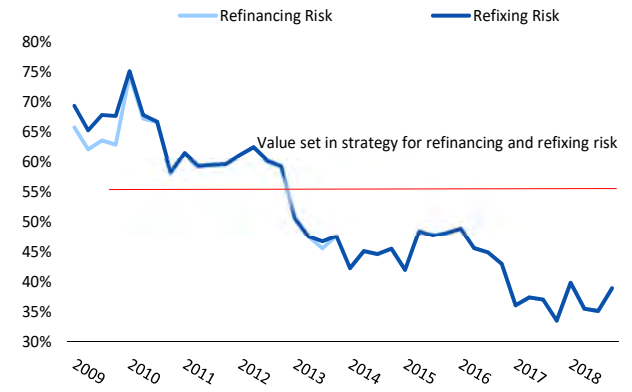


Chart 5: Risk Indicators of the Slovak Debt Portfolio for the next 5 cumulative years.



## DUAL TRANCHE ISSUANCE

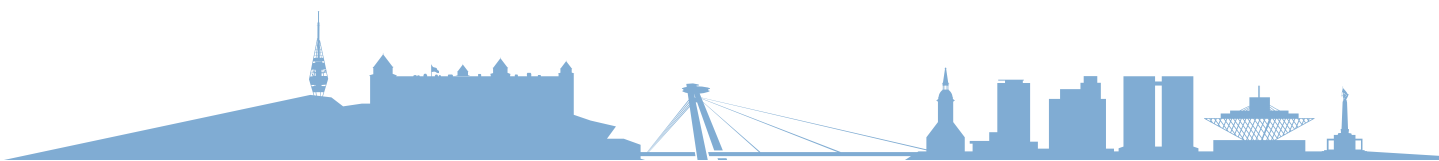
In June 2018 the Slovak Republic successfully returned to the European capital markets with a first ever dual tranche of new EUR 1 billion 10-year benchmark issue and new EUR 500 million 50-year issue. The new 50 year issue represents the longest syndicated international capital market transaction ever issued by the Slovak Republic, successfully extending the Republic's credit curve. The transaction attracted interest from more than 150 investors and the final order book closed at over EUR 5 billion (both bonds). The transaction represents the longest EUR denominated bond issued out of CEE during the last 10 years. The new issue was priced at MS+10bps (yield 1.02%) and MS+80bps (yield 2.25%) on the 10 and 50 year tenors respectively.

Table 4: 50 Year Issue

| Distribution by Region              |     |
|-------------------------------------|-----|
| Austria, Germany                    | 42% |
| United Kingdom                      | 19% |
| Italy, Spain                        | 19% |
| Nordics                             | 6%  |
| Central and Eastern Europe          | 6%  |
| Others                              | 8%  |
| Distribution by Investor Type       |     |
| Fund managers                       | 56% |
| Insurance/Pension funds             | 22% |
| Banks/Private banks                 | 13% |
| Central banks/Official institutions | 6%  |
| Others                              | 3%  |

Table 5: 10 Year Issue

| Distribution by Region              |     |
|-------------------------------------|-----|
| Austria, Germany                    | 30% |
| Central and Eastern Europe          | 16% |
| United Kingdom                      | 14% |
| Benelux                             | 13% |
| Nordics                             | 12% |
| France                              | 9%  |
| Others                              | 6%  |
| Distribution by Investor Type       |     |
| Fund managers                       | 38% |
| Banks/Private banks                 | 38% |
| Central banks/Official institutions | 13% |
| Insurance/Pension funds             | 9%  |
| Others                              | 2%  |



## KEY CHALLENGES

The year 2019 will be more challenging than the previous one. Beside Brexit, a few European elections and a global trade war, the main market driver will probably be the end of ECB quantitative easing and market normalization.

ARDAL has taken a lot of steps to mitigate these challenging risks in the past. Slovakia and its debt management is in the best condition ever and much better prepared for any unexpected shocks comparing to previous crisis years.

During recent years ARDAL has been able to make a smoother redemption profile and change its risk profile to lower risk.

New Debt Management Strategy for the years 2019–2022 should be approved in the 1Q of 2019. The existing risk parameters will be shifted down and unified to 20% and 50% of maturing/refixing debt in 1 or 5 cumulative years respectively (from existing 20-25% and 55%).

ARDAL decided, instead of having instant savings, to lock low yields for longer periods with sufficient space in forthcoming years for shorter financing. This comfortable liquidity position should work as an absorber of most market tensions and the ECB exit strategy.

Chart 6: Public Debt to GDP

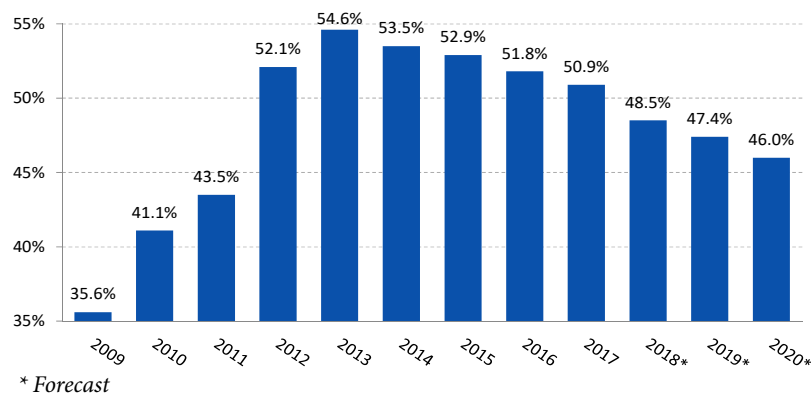
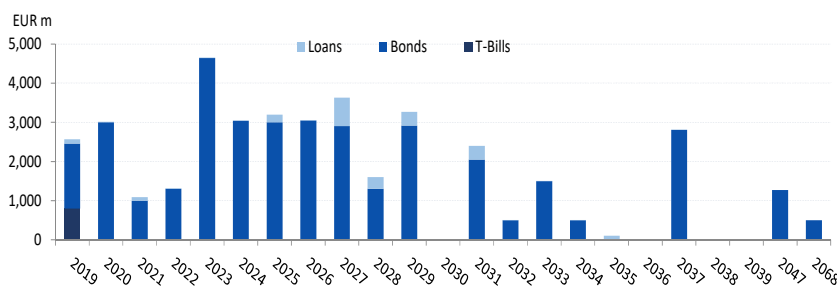


Chart 7: Maturity of Securities and Loans



## PRIMARY DEALERS FOR 2019

Barclays Bank plc  
Citibank Europe plc  
Československá obchodná banka, a.s. (KBC Group)  
Deutsche Bank AG  
HSBC France  
Natixis S.A.  
Slovenská sporiteľňa, a.s., (Erste Group)  
Société Générale S.A.  
Tatra banka, a.s., (RBI Group)  
UniCredit Bank Czech Republic and Slovakia, a.s.  
Všeobecná úverová banka, a.s., (Intesa Sanpaolo Group)

## USEFUL LINKS:

- [www.ardal.sk](http://www.ardal.sk) (Debt and Liquidity Management Agency)
- [www.finance.gov.sk](http://www.finance.gov.sk) (Ministry of Finance of the Slovak Republic)
- [www.statistics.sk](http://www.statistics.sk) (Statistical Office of the Slovak Republic)
- [www.nbs.sk](http://www.nbs.sk) (National Bank of Slovakia)
- [www.ecb.europa.eu](http://www.ecb.europa.eu) (European Central Bank)
- [www.pokladnica.sk](http://www.pokladnica.sk) (State Treasury)
- [www.cdcp.sk](http://www.cdcp.sk) (Central Depository of Securities)
- [www.bsse.sk](http://www.bsse.sk) (Bratislava Stock Exchange)
- [www.ec.europa.eu/eurostat](http://www.ec.europa.eu/eurostat) (Eurostat)
- [www.europa.eu/efc/esdm\\_en](http://www.europa.eu/efc/esdm_en) (ESDM)

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Bloomberg/Reuters: DLMA

Agentúra pre riadenie dlhu a likvidity (hereinafter referred to as the „ARDAL“), with its registered seat at Radlinského 32, Bratislava, Identification No.: 30792053 acting on behalf of the Ministry of Finance. ARDAL manages the state debt according to the Act. No. 291/2002 Coll. on State Treasury, as amended, in line with the Debt Management Strategy approved for the given period by the Government of the Slovak Republic. For the avoidance of doubt, ARDAL notes that all the data contained herein are informational only and should not be used for legal purposes. The submitted information has no influence on investments or sales of the government securities. ARDAL is not responsible for any claims, losses, liabilities or expenses incurred as a result of decisions of these investments based on the data provided in this document.